

# Catastrophe Savings Accounts

## *What is a Catastrophe Savings Account?*

Catastrophe Savings Accounts (CSAs) allow South Carolina residents to prepare for the financial impact of a catastrophic storm and save on South Carolina income taxes. The purpose of this guide is to answer some frequently-asked question about these accounts.

- CSAs allow you to set money aside, state-income tax free, to pay for qualified catastrophe expenses.

Subject to the dollar limitations, the amount you contribute to your CSA can be deducted in computing your South Carolina taxable income.

Any interest earned by the CSA will be exempt from state income tax and should be subtracted in computing your SC taxable income.

If you withdraw funds from your CSA to pay for qualified catastrophe expenses, you do not have to include the withdrawal in your SC taxable income.

- *Qualified catastrophe expenses are expenses paid or incurred by reason of a major disaster that has been declared by the Governor to be an emergency by Executive Order.*
- These expenses include payment of insurance deductibles and other uninsured risks of loss from hurricane, rising floodwaters or other catastrophic windstorm event damage.
- The account must be labeled "Catastrophe Savings Account." A taxpayer can establish only one CSA and must specify that the purpose of the account is to cover insurance deductibles and other uninsured risks caused by hurricanes, rising flood water or other catastrophic windstorm events.
- Any SC resident that owns a single family residence (house, condo, townhouse, or modular or mobile home) that qualifies as a legal residence for SC property tax purposes can contribute to a CSA.
- A CSA can be established at a state or federally chartered bank. The account must be kept separate from all other accounts (e.g. checking, or savings accounts, IRAs, medical care savings accounts and so on). It must be maintained specifically for the purpose of qualified catastrophe expenses incurred by the account holder.
- The account holder, not the financial institution, is required to maintain documentation to verify that the withdrawals from the CSA were used exclusively for qualified catastrophe expenses.
- Your CSA can only be an interest bearing savings account.

*see reverse side for more information...*

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## More information about CSAs...

You may contribute up to \$2,000 for your legal residence if your homeowner's insurance deductible is \$1,000 or less. You do not have to contribute the entire amount in one year but the total contributions for all years cannot exceed \$2,000.

If your deductible for your legal residence is more than \$1,000, then you may contribute an amount equal to twice the amount of your deductible not to exceed \$15,000. You do not have to contribute the entire amount in one year but the total contributions for all years cannot exceed twice your deductible up to \$15,000.

If you self insure your legal residence, you may contribute up to \$250,000 to your CSA. However, the amount contributed may not exceed the value of your home.

An added benefit: the amount placed in the account reduces the taxpayer's South Carolina taxable income and, as a consequence, reduces the South Carolina income tax that has to be paid.

The amount of reduction in South Carolina income taxes will depend on your tax bracket. Please visit the SC Department of Revenue, website, [www.dor.sc.gov](http://www.dor.sc.gov) for more tax information.

You are able to transfer funds from your regular savings account into a CSA. Funds contributed to a CSA can come from any source. Regardless of the source of the funds, the contribution can be deducted in computing your SC taxable income.

Money in a CSA earns interest just like money in any ordinary savings account. The interest rate paid on the account is determined by the financial institution offering it.

Interest earnings on a CSA are not subject to South Carolina income tax left in the account or if withdrawn for qualified catastrophe expenses.

Earnings from a CSA are reported on the financial institution's 1099 forms that are sent to account holders and to the Internal Revenue Service (IRS). Some financial institutions may send a separate 1099-INT form for the CSA. The amount for the CSA should be separately stated by the payor on the 1099-INT form.

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## Summary

**CSAs can be established at a state or federally chartered bank. The money can only be held in an interest bearing account.**

**The money that is placed in a CSA and the annual interest earnings are not subject to state income taxation if left in the account or used for qualified catastrophe expenses. However, the amounts cannot be used to reduce federal income.**

**Withdrawals for any purchase other than a qualified catastrophe expense are treated as ordinary income and taxed accordingly at the state level.**

**This information only attempts to address the kinds of questions you may have about CSAs. As with any tax matter and for specific questions regarding CSAs please consult a tax professional.**

**For additional information please contact the Office of Consumer Services with the South Carolina Department of Insurance by calling 1-800-748-3467 or via e-mail at [consumers@doi.sc.gov](mailto:consumers@doi.sc.gov)**